TSX Market Correction: Should RRSP Investors Buy Dividend Stocks Now?

Description

High inflation is forcing the Bank of Canada and the U.S. Federal Reserve to raise interest rates potentially higher and at a faster pace than previously anticipated. This is ramping up recession fears and causing the correction in the **TSX Index** and the recent bear market south of the border.

Pullbacks are part of the long-term cycle equity markets follow. Over time, however, top stocks tend to trend higher, and buying quality dividend-growth stocks on meaningful dips can help drive solid RRSP returns for buy-and-hold investors.

What about GICs?

One new factor to consider is the competition for funds now coming from fixed-income alternatives. A five-year GIC rate is currently available above 4.25% and likely headed higher. That's an attractive option for risk-averse RRSP investors, although it is still well below the current rate of inflation. Another thing to consider is the fact that the rate of return on a GIC remains the same for the duration of the agreement.

With this thought in mind, let's take a look at two to Canadian dividend stocks that offer high yields today and pay dividends that should continue to grow in the coming years.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) trades near $55.50 per share today compared to a 2022 high around $59.50. The pullback gives investors a chance to pick up a 6.2% dividend yield and simply wait for the next payout increase to boost the return.

Enbridge has raised the dividend in each of the past 27 years and steady annual increases in the 3-5% range should be on the way as distributable cash flow grows. Enbridge gets steady revenue from the transportation of oil and natural gas across its network of pipelines in Canada and the United States. The company also has natural gas utility businesses and a growing renewable energy group with wind, solar, and geothermal sites. In addition, Enbridge is investing in new opportunities that include hydrogen facilities as well as carbon capture and storage hubs.

Domestic and international demand for North American oil and natural gas is expected to grow in the coming years. Enbridge already transports 20% of the natural gas used in the United States and 30% of the oil produced in the U.S. and Canada.

Enbridge is building pipelines to serve liquified natural gas (LNG) facilities and the company purchased an oil export terminal last year.

The stock appears undervalued right now and offers a great dividend yield.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) raised its dividend by 25% late last year and recently increased the payout by another 4.5% when it reported fiscal Q2 2022 results. The generous increases suggest the board and BMO management are comfortable with the revenue and profit outlook in the next few years, despite the current market uncertainty.

The bank is in the process of buying **Bank of the West**, an American bank based in California, for US$16.3 billion. This is a major acquisition, but Bank of Montreal is funding the bulk of the takeover with cash it built up during the pandemic to cover potential losses that never materialized.

The purchase of Bank of the West will boost the size of the existing BMO Harris Bank operations considerably, adding more than 500 branches. This positions Bank of Montreal to benefit from long-term economic growth in California and other states where it has a strong presence.

BMO stock trades near $128.50 at the time of writing compared to the 2022 high around $154.50. Investors can currently pick up a solid 4.3% dividend yield and should see large dividend increases continue in the next few years.

The bottom line on top dividend stocks to buy now

Enbridge and Bank of Montreal pay attractive dividends that are growing. The stocks appear cheap right now thanks to the market correction and should deliver attractive total returns for buy-and-hold RRSP investors over the long term.

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